

**TOWNSHIP OF OTSEGO LAKE**  
**OTSEGO COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                               |  |                  |
|--|-------------------------------|--|------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                               | Local Unit Name<br>OTSEGO LAKE TOWNSHIP                  | County<br>OTSEGO |
| Fiscal Year End<br>MARCH 31, 2006  | Opinion Date<br>JUNE 22, 2006 | Date Audit Report Submitted to State<br>OCTOBER 20, 2006 |                  |

We affirm that:

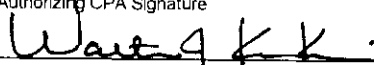
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                 | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |             |
|--|-------------------------------------|--|-------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |             |
| Financial Statements   | <input checked="" type="checkbox"/> |  |             |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |             |
| Other (Describe)   | <input type="checkbox"/>            |  |             |
| Certified Public Accountant (Firm Name)<br>KESKINE, COOK, MILLER & ALEXANDER LLP                                 |                                     | Telephone Number<br>989-732-7515           |             |
| Street Address<br>100 W FIRST ST   |                                     | City<br>GAYLORD                            | State<br>MI |
| Zip<br>49734   |                                     |  |             |
| Authorizing CPA Signature<br> | Printed Name<br>WALTER J KESKINE    | License Number<br>1101008795               |             |

## **TOWNSHIP OFFICIALS**

SUPERVISOR

THOMAS WAGAR

CLERK

LORRAINE MARKOVICH

TREASURER

B. SUZANNE WHYTE

ASSESSOR

FRED LINDROTH

## **TRUSTEES**

MARY BROWN

EDGAR DOSS

**OTSEGO LAKE TOWNSHIP**

**TABLE OF CONTENTS**

|   | <b>PAGE</b> |
|---|-------------|
| <b>Independent Auditor's Report</b>   | 1           |
| Management's Discussion and Analysis  | I-IV        |
| <b>Basic Financial Statements</b>   |             |
| Government-Wide Financial Statements  |             |
| Statement of Net Assets   | 2           |
| Statement of Activities   | 3           |
| Fund Financial Statements   |             |
| Governmental Funds  |             |
| Balance Sheet   | 4           |
| Reconciliation of the Balance Sheet to the Statement<br>of Net Assets   | 5           |
| Statement of Revenues, Expenditures and Changes<br>In Fund Balance  | 6           |
| Reconciliation of the Statement of Revenues, Expenditures and<br>Changes In Fund Balance to the Statement of Activities | 7           |
| Fiduciary Fund  |             |
| Statement of Fiduciary Assets and Liabilities   | 8           |
| Notes to Financial Statements   | 9 -16       |
| <b>Required Supplemental Information</b>  |             |
| Budgetary Comparison - General Fund   | 17-19       |
| Budgetary Comparison - Fire Protection Fund   | 20          |
| Budgetary Comparison - Trash Collection Fund  | 21          |



Keskin, Cook, Miller & Alexander LLP  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.  
Jeffrey B. Cook, C.P.A.  
Richard W. Miller, C.P.A.  
Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

## INDEPENDENT AUDITOR'S REPORT

June 22, 2006

To the Township Board  
Otsego Lake Township  
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund activities of the Township of Otsego Lake, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the major fund activity of the Township of Otsego Lake as of March 31, 2006, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages I-IV and budgetary comparison information on pages 18-22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*K. V. Cook Miller & Alexander LLP*  
KESKINE, COOK, MILLER & ALEXANDER, LLP

# Otsego Lake Township

**Supervisor**

Tom Wagar  
9515 Old 27 South  
Gaylord, MI 49735

**Clerk**

Lorraine Markovich  
P.O. Box 99  
Waters, MI 49797

**Treasurer**

Suzanne Whyte  
P.O. Box 3038  
Gaylord, MI 49734

**Assessor**

Fred Lindroth  
P.O. Box 98  
Waters, MI 49797

(517) 732-6929 • (517) 732-6923 • Fax (517) 731-0926



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Otsego Lake Township's annual financial report presents our discussion Analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements which immediately follow this section.

### Financial Highlights

Our financial status remained stable over the last year. Assets increased, as did the Townships expenses.

Overall revenues were \$727,731.00 and overall expenses were \$698,279.00.

The Township's tax base increased by 6.03 percent compared to 2005.

### Overview of the Financial Statements

This annual report consists of three parts, management discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are Township wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

### **Township Wide Statements**

The Township wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Townships assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The Township wide statements report net assets and how they have changed. Net assets are different between the Township's assets and the liabilities and this is one method to measure the Township's financial health or position.

Over time increases/decreases in the Townships net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. Descriptions of governmental activities are: General Fund, Fire Fund and Liquor Fund.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Townships funds, focusing on significant (major) funds not the Township as a whole. Funds used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the Township board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following kinds of funds:

Governmental Funds – Most of the Townships activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that differences between the Township wide statements and the fund statements are disclosed to explain the difference between them.

Fiduciary Funds – The Township is a trustee or fiduciary for assets that belong to others. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to which the funds belong. These activities do not appear in the Township wide financial statements since the assets do not belong to the Township.

### **Financial Analysis of the Township as a whole**

Net Assets – The Townships combined net assets increased during the year ended March 31, 2006 totaling \$29,452.00

This condition can be traced to the following factors: The increase is mainly due to the purchase of capital asset items.

Governmental Activities – The changes in this area can be attributed to the following factors: The net assets for governmental activities totaled \$1,815,816.00. The unrestricted net assets totaled \$911,930.00 a portion of the unrestricted funds will go for road improvement, recreation assets and upkeep of our township facilities, including Town hall and cemetery.

### **Financial Analysis of the Township Funds**

General Fund – This fund is used to record all activities of the Township not required to be recorded in a separate fund. This would include parks, zoning, building and grounds, legislative, administrative and elections. The major source of revenue for the general fund is from the Township tax base, the revenue sharing from the State of Michigan. The major expenses for this fiscal year include the general operating activities of the Township.

Fire Fund - This fund is used to recover Fire Department activities. Its major source of revenue comes from a Township wide mill age. The levy in 2006 was 1.05. The expenses incurred are for operational costs.

Trash Fund – The revenue source for the trash fund is a special assessment district all parcels with a dwelling are assessed. The expenses of this fund are a monthly charge for trash collection.

Liquor Fund – The liquor fund is used to pay the expenses of our liquor sales inspector. Revenues come from both the state and Township.



### **Capital Asset and Long-term Debt Activity**

Capital Assets – During the 2005 – 2006 the Township moved closer to completing the Down Town Streetscape project, which is a partnership with the downtown business owners, the Otsego County Road Commission and MDOT. We placed a dry hydrant at the access in Arbutus Beach. This will improve water availability to the fire department when serving the north side of our township. The Otsego Lake Fire Department continued to upgrade their equipment, including turnout gear, air packs and new hose. Recreation is a high priority within our community. Improvements to the Otsego Lake Township Park include new playground equipment (2005), trash receptacles and a bicycle/pedestrian path.

Long – term Debt – The Township's only obligation is our purchase of a fire truck in 2003, and that obligation will soon be retired.

### **Known Factors affecting Future Operations**

The lack of road funding from the State is our #1 concern. The Otsego County Road Commission is now asking Townships to maintain and upgrade primary roads. This is clearly not our responsibility. Volunteer/with pay, firefighters are becoming an endangered species. Efforts to entice citizens to join the department are ongoing.

### **Contacting Entity Management**

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of Otsego Lake Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have questions concerning this report please contact:

Lorraine Markovich or Thomas H Wagar  
10584 Old 27 South  
Waters Michigan 49797  
Or by calling 989-732-6929



**TOWNSHIP OF OTSEGO LAKE  
STATEMENT OF NET ASSETS  
MARCH 31, 2006**

|   | <b>PRIMARY<br/>GOVERNMENT -<br/>GOVERNMENTAL<br/>ACTIVITIES</b> |
|---|---|
| <hr/>   |   |
| <b>ASSETS</b>                                   |   |
| Cash  | \$ 1,212,690  |
| Taxes receivable - due from county              | 37,349  |
| Due from other funds                            | 2,329   |
| Capital assets not being depreciated            | 24,611  |
| Capital assets being depreciated - net          | 538,837   |
|   | <hr/>   |
| Total Assets                                    | 1,815,816   |
| <br><b>LIABILITIES</b>                          |   |
| Accounts payable                                | 1,924   |
| Current portion - note payable                  | 19,775  |
| Note payable                                    | 41,266  |
|   | <hr/>   |
| Total Liabilities                               | 62,965  |
| <br><b>NET ASSETS</b>                           |   |
| Invested in capital assets, net of related debt | 502,407   |
| Restricted for:                                 |   |
| Fire protection                                 | 189,992   |
| Trash collection                                | 148,522   |
| Unrestricted                                    | 911,930   |
|   | <hr/>   |
| Total Net Assets                                | <u><u>\$ 1,752,851</u></u>                                      |

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006**

|                                       | <b>PROGRAM REVENUES</b>         |   |   | <b>NET (EXPENSE)<br/>REVENUE AND<br/>CHANGE IN<br/>NET ASSETS</b> |
|---------------------------------------|---------------------------------|---|---|---|
|                                       | <b>CHARGES FOR<br/>SERVICES</b> | <b>OPERATING<br/>GRANTS &amp;<br/>CONTRIBUTIONS</b> | <b>CAPITAL<br/>GRANTS &amp;<br/>CONTRIBUTIONS</b> |   |
| <b>EXPENSES</b>                       |                                 |   |   |   |
| Governmental Activities               |                                 |   |   |   |
| General government                    | (248,146)                       | 59,178  | -   | (188,968)   |
| Public safety                         | (120,087)                       | 600   | -   | (119,487)   |
| Parks and recreation                  | (1,967)                         | -   | -   | (1,967)   |
| Health and welfare                    | (167,861)                       | -   | -   | (167,861)   |
| Public works                          | (157,917)                       | -   | -   | (157,917)   |
| Interest on long-term debt            | (2,301)                         | -   | -   | (2,301)   |
| <b>Total Governmental Activities</b>  | <b>(698,279)</b>                | <b>59,778</b>                                       | <b>-</b>  | <b>(638,501)</b>  |
| <b>GENERAL REVENUES</b>               |                                 |   |   |   |
| Property Taxes/Assessments:           |                                 |   |   |   |
| General purposes                      |                                 |   |   | 116,251   |
| Fire protection                       |                                 |   |   | 144,401   |
| Trash collection                      |                                 |   |   | 176,364   |
| State shared revenues                 |                                 |   |   | 171,006   |
| Interest                              |                                 |   |   | 31,166  |
| Metro act revenue                     |                                 |   |   | 7,877   |
| Swamp tax revenue                     |                                 |   |   | 6,430   |
| Ordinances                            |                                 |   |   | 5,610   |
| Rental income                         |                                 |   |   | 2,905   |
| Miscellaneous                         |                                 |   |   | 5,943   |
| <b>TOTAL GENERAL REVENUES</b>         |                                 |   |   | <b>667,953</b>  |
| <b>CHANGE IN NET ASSETS</b>           |                                 |   |   | <b>29,452</b>   |
| <b>NET ASSETS - BEGINNING OF YEAR</b> |                                 |   |   | <b>1,723,399</b>  |
| <b>NET ASSETS - END OF YEAR</b>       |                                 |   |   | <b>1,752,851</b>  |

See accompanying notes to the financial statements

TOWNSHIP OF OTSEGO LAKE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2006

|  | <u>MAJOR FUNDS</u> |                    |                     | NON-MAJOR<br>FUND |                     |
|--|--------------------|--------------------|---------------------|-------------------|---------------------|
|  | GENERAL            | FIRE<br>PROTECTION | TRASH<br>COLLECTION | LIQUOR<br>CONTROL | TOTAL               |
| <b>ASSETS</b>                            |                    |                    |                     |                   |                     |
| Cash and equivalents                     | \$ 899,912         | \$ 179,155         | \$ 133,623          | \$ -              | \$ 1,212,690        |
| Delinquent taxes receivable              | 11,613             | 10,837             | 14,899              | -                 | 37,349              |
| Due from current tax collection          | 2,329              | -                  | -                   | -                 | 2,329               |
|  |                    |                    |                     |                   |                     |
| <b>Total Assets</b>                      | <u>913,854</u>     | <u>189,992</u>     | <u>148,522</u>      | <u>-</u>          | <u>1,252,368</u>    |
|  |                    |                    |                     |                   |                     |
| <b>LIABILITIES AND FUND EQUITY</b>       |                    |                    |                     |                   |                     |
| <b>Liabilities:</b>                      |                    |                    |                     |                   |                     |
| Accounts payable                         | 1,924              | -                  | -                   | -                 | 1,924               |
|  |                    |                    |                     |                   |                     |
| <b>Fund Equity:</b>                      |                    |                    |                     |                   |                     |
| Fund Balance - Unreserved                | 911,930            | 189,992            | 148,522             | -                 | 1,250,444           |
|  |                    |                    |                     |                   |                     |
| <b>Total Liabilities and Fund Equity</b> | <u>\$ 913,854</u>  | <u>\$ 189,992</u>  | <u>\$ 148,522</u>   | <u>\$ -</u>       | <u>\$ 1,252,368</u> |

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006**

|   |                     |
|---|---------------------|
| <b>Total Fund Balances - Governmental Activities (Per Balance Sheet Page 4)</b>   | <b>\$ 1,250,444</b> |
| Amounts reported for governmental activities in the Statement of Net Assets (page 2) are different because:   |                     |
| Capital assets used in governmental activities are not financial resources and therefore not recorded in the funds                                    | 563,448             |
| Long-term liabilities, including notes and interest payable are not due and payable in the current period and therefore are not reported in the funds | 61,041              |
| <b>Total Net Assets - Governmental Activities (per Statement of Net Assets - page 2)</b>  | <b>\$ 1,752,851</b> |

See accompanying notes to financial statements

**TOWNSHIP OF OTSEGO LAKE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED MARCH 31, 2006**

|  | <u>MAJOR FUNDS</u> |             |                   | <u>TRASH</u>      | <u>NON-MAJOR FUND</u> |              |
|--|--------------------|-------------|-------------------|-------------------|-----------------------|--------------|
|  | <u>GENERAL</u>     | <u>FIRE</u> | <u>PROTECTION</u> | <u>COLLECTION</u> | <u>LIQUOR</u>         | <u>TOTAL</u> |
| <b>REVENUES</b>  |                    |             |                   |                   |                       |              |
| Taxes and assessments  | \$ 116,250         | \$ 144,400  | \$ 176,364        | \$ -              | \$ -                  | \$ 437,014   |
| State shared revenues  | 171,006            | -           | -                 | -                 | -                     | 171,006      |
| Charges for services   | 59,178             | 600         | -                 | -                 | -                     | 59,778       |
| Interest   | 28,678             | 816         | 1,672             | -                 | -                     | 31,166       |
| Miscellaneous  | 20,519             | 6,435       | -                 | -                 | 1,813                 | 28,767       |
| Total Revenues   | 395,631            | 152,251     | 178,036           | -                 | 1,813                 | 727,731      |
| <b>EXPENDITURES</b>  |                    |             |                   |                   |                       |              |
| Current:   |                    |             |                   |                   |                       |              |
| General government   | 232,276            | -           | -                 | -                 | -                     | 232,276      |
| Public works   | 156,290            | -           | -                 | -                 | -                     | 156,290      |
| Health and welfare   | -                  | -           | 167,861           | -                 | -                     | 167,861      |
| Public safety  | -                  | 88,031      | -                 | -                 | 3,457                 | 91,488       |
| Capital outlay   | 44,604             | 32,688      | -                 | -                 | -                     | 77,292       |
| Interest on long-term debt   | -                  | 2,301       | -                 | -                 | -                     | 2,301        |
| Debt service   | 1,065              | 19,224      | -                 | -                 | -                     | 20,289       |
| Total Expenditures   | 434,235            | 142,244     | 167,861           | -                 | 3,457                 | 747,797      |
| Excess (Deficiency) of Revenues over Expenditures                                  | (38,604)           | 10,007      | 10,175            | -                 | (1,644)               | (20,066)     |
| <b>Other Financing Sources:</b>  |                    |             |                   |                   |                       |              |
| Operating transfers in/(out)   | (1,644)            | -           | -                 | -                 | 1,644                 | -            |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | (40,248)           | 10,007      | 10,175            | -                 | -                     | (20,066)     |
| Fund Balance - April 1   | 952,178            | 179,985     | 138,347           | -                 | -                     | 1,270,510    |
| Fund Balance - March 31  | \$ 911,930         | \$ 189,992  | \$ 148,522        | \$ -              | \$ -                  | \$ 1,250,444 |

See accompanying notes to the financial statements

**TOWNSHIP OF OTSEGO LAKE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006**

|   |                    |
|---|--------------------|
| <b>Net Change in Fund Balances - Governmental Activities (Page 6)</b>   | <b>\$ (20,066)</b> |
| Amounts reported for governmental activities in the Statement of Activities (page 3) are different because:   |                    |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives  | 77,292             |
| Depreciation expense, recorded in the statement of activities but not the fund financial statements   | (48,063)           |
| Governmental funds do not record long-term debt; therefore, debt service payments are recorded as an expenditure. However, in the government-wide statements, long-term debt is recorded and debt service payments are applied against the outstanding balances | 20,289             |
| <b>Change in Net Assets of Governmental Activities (Page 3)</b>   | <b>\$ 29,452</b>   |

See accompanying notes to financial statements

**TOWNSHIP OF OTSEGO LAKE  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
MARCH 31, 2006**

**ASSETS**

|                      |              |
|----------------------|--------------|
| Cash and equivalents | \$ 6,782     |
|                      | <u>6,782</u> |

**LIABILITIES**

|                    |              |
|--------------------|--------------|
| Due to individuals | 4,453        |
| Due to other funds | 2,329        |
|                    | <u>6,782</u> |
| Total Liabilities  | <u>6,782</u> |

See accompanying notes to the financial statements



**TOWNSHIP OF OTSEGO LAKE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 1: ENTITY**

The Township of Otsego Lake is a general law township of the State of Michigan, located in Otsego County, Michigan. It operates under an elected board and provides services to its residents in many areas including public safety, community enrichment, and human services. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Otsego Lake Township.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of Otsego Lake Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Otsego Lake Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION**

***Government-Wide Financial Statements***

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

***Government-Wide Financial Statements (Continued)***

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Township currently has no business type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity.

**TOWNSHIP OF OTSEGO LAKE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION  
(CONTINUED)**

Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

***General Fund*** - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

***Fire Protection Fund*** – This fund is used to account for all financial activity related to the Township's fire services. The main source of revenue is derived from property taxes and fees.

***Trash Collection Fund*** – This fund is used to account for the Township's trash pick-up services. Revenues are derived from property tax assessments.

***Other Funds***

***Fiduciary Funds*** - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

**TOWNSHIP OF OTSEGO LAKE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION  
(CONTINUED)**

**FUND TYPES AND MAJOR FUNDS (CONTINUED)**

The Township has one non-major fund – Liquor Control which receives State Shared Liquor Funds and employs a constable to perform Liquor Control Duties. General fund transferred \$1,644 to support this fund during the year.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations include transfers between funds.

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

**TOWNSHIP OF OTSEGO LAKE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide Financial Statements (Continued)**

**Governmental Fund Financial Statements**

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2005, are recorded as revenue in the current year. The Township's taxable value for the 2005 tax year totaled \$146,309,909.

The tax rates for the year ended March 31, 2006, were as follows:

| <b>PURPOSE</b>   | <b>RATE/ASSESSED VALUATION</b> |
|------------------|--------------------------------|
| General          | 0.8332 mills per \$1,000       |
| Fire Protection  | Special Assessment             |
| Trash Collection | Special Assessment             |

**BUDGET**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items.

**ACCOUNTS RECEIVABLE**

The Township has property taxes/assessments receivable in the following funds:

|                  |                  |
|------------------|------------------|
| General          | \$ 11,613        |
| Fire Protection  | 10,837           |
| Trash Collection | 14,899           |
|                  | <u>\$ 37,349</u> |

**TOWNSHIP OF OTSEGO LAKE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ACCOUNTS RECEIVABLE (CONTINUED)**

These amounts are paid by a county tax revolving fund. No allowance for doubtful accounts is considered necessary at March 31, 2006.

**DUE FROM OTHER FUNDS**

The tax collection (fiduciary fund) has not distributed \$2,329 due to the general fund.

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$2,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

|                            |               |
|----------------------------|---------------|
| Township vehicles          | 5 – 10 years  |
| Buildings and improvements | 25 – 40 years |
| Land improvements          | 10 – 20 years |
| Machinery and equipment    | 5 – 10 years  |
| Infrastructure             | 20 – 40 years |

Land and construction in progress are not depreciated.

For information describing capital assets, see Note 4.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND  
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

**TOWNSHIP OF OTSEGO LAKE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND  
DISCOUNTS/PREMIUMS (CONTINUED)**

Township long-term debt currently consists of a \$100,000 note dated August 15, 2003 with Fifth Third Bank at 2.867% interest. Secured by a 2100 Gallon Fire Tanker.

Payments are due as follows:

|       | <b>Governmental Activities</b> |                 |               |
|-------|--------------------------------|-----------------|---------------|
|       | <b>Principle</b>               | <b>Interest</b> | <b>Total</b>  |
| 2006  | 19,775                         | 1,750           | 21,525        |
| 2007  | 20,342                         | 1,183           | 21,525        |
| 2008  | 20,925                         | 600             | 21,525        |
| Total | <u>61,042</u>                  | <u>3,533</u>    | <u>64,575</u> |

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE 3: CASH**

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have direct obligations of the United States or any agency or instrumentality of the United States; repurchased agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Cash consists of all cash on hand, checking and savings accounts.

The bank balance of the Township's deposits was \$1,230,972 as of March 31, 2006 of which \$423,886 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of the cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

**TOWNSHIP OF OTSEGO LAKE**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED MARCH 31, 2006**

**NOTE 3: CASH (CONTINUED)**

As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk for each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4: CAPITAL ASSETS**

|                                       | Balance<br>April 1, 2005 | Additions | Disposals | Reclassifications | Balance<br>March 31, 2006 |
|---------------------------------------|--------------------------|-----------|-----------|-------------------|---------------------------|
| <b>Governmental Activities</b>        |                          |           |           |                   |                           |
| Capital assets not being depreciated: |                          |           |           |                   |                           |
| Land                                  | \$ 37,498                | \$ -      | \$ -      | \$ (12,887)       | \$ 24,611                 |
| Capital assets being depreciated:     |                          |           |           |                   |                           |
| Buildings & Improvements              | 558,243                  | 18,564    | -         | 12,887            | 589,694                   |
| Machinery & Equipment                 | 102,265                  | 58,728    | 3,070     | -                 | 157,923                   |
| Vehicles                              | 428,025                  | -         | -         | -                 | 428,025                   |
| Subtotal                              | 1,088,533                | 77,292    | 3,070     | 12,887            | 1,175,642                 |
| Accumulated depreciation:             |                          |           |           |                   |                           |
| Buildings & Improvements              | 250,212                  | 17,459    | -         | -                 | 267,671                   |
| Machinery & Equipment                 | 57,281                   | 13,360    | 3,070     | -                 | 67,571                    |
| Vehicles                              | 284,319                  | 17,244    | -         | -                 | 301,563                   |
| Subtotal                              | 591,812                  | 48,063    | 3,070     | -                 | 636,805                   |
| Net capital assets being depreciated  | 496,721                  | 29,229    | -         | 12,887            | 538,837                   |
| Net capital assets                    | \$ 534,219               | \$ 29,229 | \$ -      | \$ -              | \$ 563,448                |

Depreciation expense was charged to functions of the Township as follows:

***Governmental Activities***

|                      |                  |
|----------------------|------------------|
| General Government   | \$ 16,432        |
| Parks and Recreation | 1,967            |
| Public Safety        | 29,664           |
| Total                | <u>\$ 48,063</u> |

**NOTE 5: PENSION PLAN**

The Township of Otsego Lake contributes to the Township of Otsego Lake Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

**TOWNSHIP OF OTSEGO LAKE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED MARCH 31, 2006**

**NOTE 5: PENSION PLAN (CONTINUED)**

Upon the date of hire, all salaried employees are eligible to participate in the plan. Contributions made by both the Township and employees vest immediately. The participant will receive benefits at age 65 or the tenth anniversary of the date the participant commenced participation of the plan if later. The plan does not allow early retirement at age 55.

The plan requires the Township to contribute 10% of the eligible employees wages. Additionally, each participant may make a contribution up to 10% of their salary. During the year the Township contributed \$14,247 to the plan which was 10% of its current year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

**NOTE 6: WASTE MANAGEMENT CONTRACT**

The Township entered into a five year contract beginning January 1, 2005 and ending December 31, 2009 with American Waste, Inc. on December 16, 2004 for weekly trash collection services. The charge is \$6.90 per unit per month for calendar years 2005 through 2007; \$7.10 per unit per month for calendar year 2008 and \$7.30 per unit per month for calendar year 2009. The total units as of December 16, 2004 were 2,011 and the Township is responsible for updating American Waste, Inc changes to the number of units.

**NOTE 7: CONTINGENCIES**

**INSURANCE**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.



**TOWNSHIP OF OTSEGO LAKE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED MARCH 31, 2006**

|                                  | <b>ORIGINAL<br/>BUDGET</b> | <b>FINAL<br/>AMENDED<br/>BUDGET</b> | <b>ACTUAL</b>  | <b>VARIANCE<br/>FROM FINAL<br/>AMENDED<br/>BUDGET</b> |
|----------------------------------|----------------------------|-------------------------------------|----------------|---|
| <b>REVENUES</b>                  |                            |                                     |                |   |
| Taxes and assessments            | \$ 116,186                 | \$ 116,186                          | \$ 116,250     | \$ 64   |
| State shared revenues            | 200,000                    | 200,000                             | 171,006        | (28,994)  |
| Charges for services             | 54,756                     | 54,756                              | 59,178         | 4,422   |
| Interest                         | 10,000                     | 10,000                              | 28,678         | 18,678  |
| Miscellaneous                    | 11,579                     | 11,579                              | 20,519         | 8,940   |
| <b>Total Revenues</b>            | <b>392,521</b>             | <b>392,521</b>                      | <b>395,631</b> | <b>3,110</b>  |
| <b>EXPENDITURES</b>              |                            |                                     |                |   |
| <b>GENERAL GOVERNMENT:</b>       |                            |                                     |                |   |
| <b>Township Board:</b>           |                            |                                     |                |   |
| Salaries                         | 7,000                      | 7,000                               | 7,000          | -   |
| Fringe benefits                  | 2,500                      | 2,500                               | 3,776          | (1,276)   |
| Office supplies                  | 2,700                      | 2,700                               | 2,798          | (98)  |
| Professional fees                | 9,000                      | 9,000                               | 4,797          | 4,203   |
| Education and training           | 5,500                      | 5,500                               | 4,719          | 781   |
| Pension                          | 16,500                     | 16,500                              | 14,247         | 2,253   |
| Community promotion              | 4,000                      | 4,000                               | 1,271          | 2,729   |
| Printing and publishing          | 1,500                      | 1,500                               | 320            | 1,180   |
| Insurance and bonds              | 10,000                     | 10,000                              | 10,640         | (640)   |
| Dues and membership              | 3,500                      | 3,500                               | 2,856          | 644   |
| Assistance                       | 5,000                      | 5,000                               | 4,775          | 225   |
| Transportation                   | 2,500                      | 2,500                               | 3,229          | (729)   |
| <b>Total Township Board</b>      | <b>69,700</b>              | <b>69,700</b>                       | <b>60,428</b>  | <b>9,272</b>  |
| <b>Township Supervisor:</b>      |                            |                                     |                |   |
| Salaries                         | 17,335                     | 17,335                              | 17,335         | -   |
| Salaries - deputy                | 500                        | 500                                 | -              | 500   |
| Office supplies                  | 100                        | 100                                 | -              | 100   |
| <b>Total Township Supervisor</b> | <b>17,935</b>              | <b>17,935</b>                       | <b>17,335</b>  | <b>600</b>  |
| <b>Election:</b>                 |                            |                                     |                |   |
| Salaries                         | 1,500                      | 1,500                               | 427            | 1,073   |
| Office supplies                  | 100                        | 100                                 | 81             | 19  |
| Operating supplies               | 4,000                      | 4,000                               | 4              | 3,996   |
| <b>Total Election</b>            | <b>5,600</b>               | <b>5,600</b>                        | <b>512</b>     | <b>5,088</b>  |

**TOWNSHIP OF OTSEGO LAKE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

|                                   | <b>ORIGINAL<br/>BUDGET</b> | <b>FINAL<br/>AMENDED<br/>BUDGET</b> | <b>ACTUAL</b> | <b>VARIANCE<br/>FROM FINAL<br/>AMENDED<br/>BUDGET</b> |
|-----------------------------------|----------------------------|-------------------------------------|---------------|---|
| <b>Township Assessor:</b>         |                            |                                     |               |   |
| Salaries                          | 34,180                     | 34,180                              | 33,180        | 1,000   |
| Office supplies                   | 500                        | 500                                 | 15            | 485   |
| Data processing                   | 7,000                      | 7,000                               | 3,744         | 3,256   |
| Operating supplies                | 4,500                      | 4,500                               | 2,978         | 1,522   |
| <b>Total Township Assessor</b>    | <b>46,180</b>              | <b>46,180</b>                       | <b>39,917</b> | <b>6,263</b>  |
| <b>Township Clerk:</b>            |                            |                                     |               |   |
| Salaries                          | 22,972                     | 22,972                              | 22,972        | -   |
| Salaries - deputy                 | 2,000                      | 2,000                               | 220           | 1,780   |
| Office supplies                   | 1,000                      | 1,000                               | 488           | 512   |
| Operating supplies                | 1,500                      | 1,500                               | 1,403         | 97  |
| <b>Total Township Clerk</b>       | <b>27,472</b>              | <b>27,472</b>                       | <b>25,083</b> | <b>2,389</b>  |
| <b>Board of Review:</b>           |                            |                                     |               |   |
| Salaries                          | 1,000                      | 1,000                               | 735           | 265   |
| Education                         | 300                        | 300                                 | -             | 300   |
| <b>Total Board of Review</b>      | <b>1,300</b>               | <b>1,300</b>                        | <b>735</b>    | <b>565</b>  |
| <b>Township Treasurer:</b>        |                            |                                     |               |   |
| Treasurer salaries                | 25,372                     | 25,372                              | 25,372        | -   |
| Salaries - deputy                 | 2,500                      | 2,500                               | 2,260         | 240   |
| Office supplies                   | 500                        | 500                                 | 232           | 268   |
| Data processing                   | 6,000                      | 6,000                               | 3,744         | 2,256   |
| Operating supplies                | 7,000                      | 7,000                               | 3,931         | 3,069   |
| <b>Total Township Treasurer</b>   | <b>41,372</b>              | <b>41,372</b>                       | <b>35,539</b> | <b>5,833</b>  |
| <b>Building and Grounds:</b>      |                            |                                     |               |   |
| Supplies                          | 500                        | 500                                 | 469           | 31  |
| Service contract                  | 15,000                     | 15,000                              | 15,251        | (251)   |
| Communication                     | 4,000                      | 4,000                               | 3,893         | 107   |
| Utilities                         | 6,000                      | 6,000                               | 4,767         | 1,233   |
| Repair and maintenance            | 13,000                     | 13,000                              | 14,920        | (1,920)   |
| Miscellaneous                     | 2,500                      | 2,500                               | 1,964         | 536   |
| <b>Total Building and Grounds</b> | <b>41,000</b>              | <b>41,000</b>                       | <b>41,264</b> | <b>(264)</b>  |

**TOWNSHIP OF OTSEGO LAKE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)  
GENERAL FUND  
YEAR ENDED MARCH 31, 2006**

|   | <b>ORIGINAL<br/>BUDGET</b> | <b>FINAL<br/>AMENDED<br/>BUDGET</b> | <b>ACTUAL</b>     | <b>VARIANCE<br/>FROM FINAL<br/>AMENDED<br/>BUDGET</b> |
|---|----------------------------|-------------------------------------|-------------------|---|
| <b>Planning &amp; Zoning</b>  |                            |                                     |                   |   |
| Salaries  | 4,000                      | 4,000                               | 3,615             | 385   |
| Office supplies   | 1,000                      | 1,000                               | 179               | 821   |
| Professional  | 7,000                      | 7,000                               | 6,355             | 645   |
| Education and training  | 1,500                      | 1,500                               | 1,314             | 186   |
| <b>Total Planning &amp; Zoning</b>  | <b>13,500</b>              | <b>13,500</b>                       | <b>11,463</b>     | <b>2,037</b>  |
| <b>Total General Government</b>   | <b>264,059</b>             | <b>264,059</b>                      | <b>232,276</b>    | <b>31,783</b>   |
| <b>Public Works</b>   | <b>281,000</b>             | <b>281,000</b>                      | <b>156,290</b>    | <b>124,710</b>  |
| <b>Capital Outlay</b>   | <b>77,500</b>              | <b>77,500</b>                       | <b>44,604</b>     | <b>32,896</b>   |
| <b>Debt Service</b>   | <b>-</b>                   | <b>-</b>                            | <b>1,065</b>      | <b>(1,065)</b>  |
| <b>Total Expenditures</b>   | <b>622,559</b>             | <b>622,559</b>                      | <b>434,235</b>    | <b>188,324</b>  |
| <b>OTHER FINANCING USES:</b>  |                            |                                     |                   |   |
| Transfers Out   | -                          | -                                   | 1,644             | (1,644)   |
| <b>Total Expenditures and Other<br/>Financing Uses</b>                          | <b>622,559</b>             | <b>622,559</b>                      | <b>435,879</b>    | <b>186,680</b>  |
| <b>Excess (Deficiency) of Revenues<br/>over Expenditures and Other<br/>Uses</b> | <b>(230,038)</b>           | <b>(230,038)</b>                    | <b>(40,248)</b>   | <b>189,790</b>  |
| <b>Fund Balance - April 1</b>   | <b>952,178</b>             | <b>952,178</b>                      | <b>952,178</b>    | <b>-</b>  |
| <b>Fund Balance - March 31</b>  | <b>\$ 722,140</b>          | <b>\$ 722,140</b>                   | <b>\$ 911,930</b> | <b>\$ 189,790</b>                                     |

**TOWNSHIP OF OTSEGO LAKE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FIRE PROTECTION FUND  
YEAR ENDED MARCH 31, 2006**

|  | <b>ORIGINAL<br/>BUDGET</b> | <b>AMENDED<br/>BUDGET</b> | <b>ACTUAL</b>     | <b>VARIANCE<br/>FROM FINAL<br/>AMENDED<br/>BUDGET</b> |
|--|----------------------------|---------------------------|-------------------|---|
| <b>REVENUES:</b>   |                            |                           |                   |   |
| Taxes and assessments  | \$ 122,854                 | \$ 122,854                | \$ 144,400        | \$ 21,546   |
| Charges for services   | 3,600                      | 3,600                     | 600               | (3,000)   |
| Interest   | 500                        | 500                       | 816               | 316   |
| Miscellaneous  | 500                        | 500                       | 6,435             | 5,935   |
| <b>Total Revenues</b>  | <b>127,454</b>             | <b>127,454</b>            | <b>152,251</b>    | <b>24,797</b>   |
| <b>EXPENDITURES:</b>   |                            |                           |                   |   |
| Fringe benefits  | 6,100                      | 6,100                     | 2,893             | 3,207   |
| Per diem & fees  | 40,000                     | 40,000                    | 33,043            | 6,957   |
| Office supplies  | 10,800                     | 10,800                    | 13,879            | (3,079)   |
| Uniforms   | 1,500                      | 1,500                     | 1,278             | 222   |
| Professional services  | 2,000                      | 2,000                     | 1,076             | 924   |
| Communication  | 1,800                      | 1,800                     | 1,458             | 342   |
| Transportation   | 100                        | 100                       | 273               | (173)   |
| Education and training                                       | 5,000                      | 5,000                     | 4,361             | 639   |
| Community promotion  | 1,000                      | 1,000                     | 89                | 911   |
| Printing and publishing                                      | 500                        | 500                       | 74                | 426   |
| Insurance and bonds  | 12,000                     | 12,000                    | 10,792            | 1,208   |
| Utilities  | 6,500                      | 6,500                     | 5,246             | 1,254   |
| Repair and maintenance                                       | 13,000                     | 13,000                    | 13,042            | (42)  |
| Miscellaneous  | 300                        | 300                       | 527               | (227)   |
| Capital outlay   | 32,500                     | 32,500                    | 32,688            | (188)   |
| Interest on long-term debt                                   | -                          | -                         | 2,301             | (2,301)   |
| Debt retirement  | 21,600                     | 21,600                    | 19,224            | 2,376   |
| <b>Total Expenditures</b>                                    | <b>154,700</b>             | <b>154,700</b>            | <b>142,244</b>    | <b>12,456</b>   |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>(27,246)</b>            | <b>(27,246)</b>           | <b>10,007</b>     | <b>37,253</b>   |
| <b>Fund Balance - April 1</b>                                | <b>179,985</b>             | <b>179,985</b>            | <b>179,985</b>    | <b>-</b>  |
| <b>Fund Balance - March 31</b>                               | <b>\$ 152,739</b>          | <b>\$ 152,739</b>         | <b>\$ 189,992</b> | <b>\$ 37,253</b>                                      |

**TOWNSHIP OF OTSEGO LAKE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
TRASH COLLECTION FUND  
YEAR ENDED MARCH 31, 2006**

|  | <b>ORIGINAL<br/>BUDGET</b> | <b>AMENDED<br/>BUDGET</b> | <b>ACTUAL</b>     | <b>VARIANCE<br/>FROM FINAL<br/>AMENDED<br/>BUDGET</b> |
|--|----------------------------|---------------------------|-------------------|---|
| <b>REVENUES:</b>   |                            |                           |                   |   |
| Taxes and assessments  | \$ 173,962                 | \$ 173,962                | \$ 176,364        | \$ 2,402  |
| Interest income  | 500                        | 500                       | 1,672             | 1,172   |
| <b>Total Revenues</b>  | <b>174,462</b>             | <b>174,462</b>            | <b>178,036</b>    | <b>3,574</b>  |
| <b>EXPENDITURES:</b>   |                            |                           |                   |   |
| Trash service  | 170,000                    | 170,000                   | 167,586           | 2,414   |
| Office supplies  | 100                        | 100                       | -                 | 100   |
| Operating supplies   | 100                        | 100                       | -                 | 100   |
| Professional services  | 1,200                      | 1,200                     | 275               | 925   |
| Printing and publishing  | 100                        | 100                       | -                 | 100   |
| <b>Total Expenditures</b>  | <b>171,500</b>             | <b>171,500</b>            | <b>167,861</b>    | <b>3,639</b>  |
| <b>Excess (Deficiency) of<br/>Revenues over<br/>Expenditures</b> | <b>2,962</b>               | <b>2,962</b>              | <b>10,175</b>     | <b>7,213</b>  |
| <b>Fund Balance - April 1</b>                                    | <b>-</b>                   | <b>-</b>                  | <b>138,347</b>    | <b>138,347</b>  |
| <b>Fund Balance - March 31</b>                                   | <b>\$ 2,962</b>            | <b>\$ 2,962</b>           | <b>\$ 148,522</b> | <b>\$ 145,560</b>                                     |



**Keskin, Cook, Miller & Alexander LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.  
Jeffrey B. Cook, C.P.A.  
Richard W. Miller, C.P.A.  
Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

June 22, 2006

To the Township Board  
Township of Otsego Lake, Otsego County

We have audited the financial statements of Otsego Lake Township for the year ended March 31, 2006, and have issued our report thereon dated June 22, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 1, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Otsego Lake Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Otsego Lake Township are described in the notes to the financial statements.

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached page summarizes the adjustments that were proposed to management and made to the audited financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Difficulties Encountered in Performing the Audit**

The accounting records of Otsego Lake Township were well organized and we are happy to report that there were no significant difficulties encountered in performing the audit.

### **Comments and Recommendations**

In planning and performing our audit of the financial statements of Otsego Lake Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comment and recommendation should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- It was noted during the audit that the Township had large amounts of idle cash during the year. We would recommend that the Township determine the levels of cash that are needed for operations and invest excess cash in investments that are in line with the Township's investment policy. This will result in higher investment returns for the township.

- It was noted during the audit that the treasurer and clerk did not reconcile records on a timely basis during the year. This was mostly due to delays in the clerk receiving the cash receipts from the treasurer. It would be our recommendation that the treasurer remit to the clerk on a weekly basis all receipts. We would also recommend that the clerk and treasurer perform reconciliations with each other's records monthly and locate and resolve any discrepancies.

We hope you find the above comment and recommendation useful. We are available to assist you in implementing this item should the need arise.

This information is intended solely for the information of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Keskin, Cook, Miller & Alexander LLP".

Keskin, Cook, Miller & Alexander LLP